

ARGENTINA

**PROGRAM FOR SOCIAL PROTECTION AND MITIGATION OF THE
IMPACT OF THE CRISIS ON THE POOR**

(AR-0295)

LOAN PROPOSAL

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ABBREVIATIONS

CNCPS	Consejo Nacional de Coordinación de Políticas Sociales [National Council for Social Policy Coordination]
ECG	Executive Coordination Group
FIBAPS	Current and Potential Social Program Beneficiary Identification Fiche
GDP	gross domestic product
IDB	Inter-American Development Bank
IMF	International Monetary Fund
INDEC	Instituto Nacional de Estadísticas y Censos [National Statistics and Census Bureau]
MDS	Ministry of Social Development
MECT	Ministry of Education, Science and Technology
MSAS	Ministry of Health and Social Action
OC	Ordinary Capital
PSP(s)	Priority Social Program(s)
SEP	Social Emergency Plan
SIEMPRO	Social Program Information, Evaluation and Monitoring System
SINTyS	National Taxpayer and Social Identification System
SISFAM	Consolidated Beneficiary Household Identification and Registry System
WPI	wholesale price index



ARGENTINA

IDB LOANS

APPROVED AS OF NOVEMBER 30, 2002

	<i>US\$Thousand</i>	<i>Percent</i>
TOTAL APPROVED	16,946,386	
DISBURSED	13,601,252	80.3%
UNDISBURSED BALANCE	3,345,133	19.7%
CANCELLATIONS	1,930,759	11.4%
PRINCIPAL COLLECTED	5,187,274	30.6%
APPROVED BY FUND		
ORDINARY CAPITAL	16,252,523	95.9%
FUND FOR SPECIAL OPERATIONS	644,906	3.8%
OTHER FUNDS	48,957	0.3%
OUTSTANDING DEBT BALANCE	8,413,978	
ORDINARY CAPITAL	8,258,368	98.2%
FUND FOR SPECIAL OPERATIONS	154,178	1.8%
OTHER FUNDS	1,432	0.0%
APPROVED BY SECTOR		
AGRICULTURE AND FISHERY	823,847	4.9%
INDUSTRY, TOURISM, SCIENCE TECHNOLOGY	811,535	4.8%
ENERGY	1,787,337	10.5%
TRANSPORTATION AND COMMUNICATIONS	966,763	5.7%
EDUCATION	1,237,925	7.3%
HEALTH AND SANITATION	1,406,064	8.3%
ENVIRONMENT	30,939	0.2%
URBAN DEVELOPMENT	1,001,573	5.9%
SOCIAL INVESTMENT AND MICROENTERPRISE	1,175,739	6.9%
REFORM PUBLIC SECTOR MODERNIZATION	7,402,817	43.7%
EXPORT FINANCING	215,326	1.3%
PREINVESTMENT AND OTHER	86,521	0.5%

* Net of cancellations with monetary adjustments and export financing loan collections



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ARGENTINA

STATUS OF LOANS IN EXECUTION AS OF NOVEMBER 30, 2002

(Amounts in US\$ thousands)

APPROVAL PERIOD	NUMBER OF PROJECTS	AMOUNT APPROVED *	AMOUNT DISBURSED	% DISBURSED
<u>REGULAR PROGRAM</u>				
Before 1996	6	1,233,000	1,076,448	87.30%
1996 - 1997	11	1,567,301	831,311	53.04%
1998 - 1999	11	1,260,000	350,389	27.81%
2000 - 2001	8	2,067,500	541,855	26.21%
TOTAL	36	\$6,127,801	\$2,800,003	45.69%



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Argentina

Tentative Lending Program

2003

Project Number	Project Name	IDB US\$ Millions	Status
AR0295	Social Protection and Reduction of the Impact of the Crisis	1,500.0	
AR0292	Salta Province: Support to Productive Development Program	38.0	
AR0279	Rio Negro Province Productive Modernization	60.0	
Total - A : 3 Projects		1,598.0	
AR0232	Strategy Design at the National and Provincial Levels	20.0	
AR0294	Support to San Luis Province	50.0	
Total - B : 2 Projects		70.0	
TOTAL 2003 : 5 Projects		1,668.0	

2004

Project Number	Project Name	IDB US\$ Millions	Status
AR0241	Agro Competitiveness (PROCOM)	75.0	
AR0264	AFIP Strengthening II Stage	95.0	
AR0267	Improve Compet. of Tourism Program	25.0	
AR0290	Financial Sector Program II	500.0	
Total - A : 4 Projects		695.0	
AR0247	Public Safety: Violence Prevention	100.0	
AR0274	National Housing Program	100.0	
AR0285	Buenos Aires City Subway Phase I	150.0	
Total - B : 3 Projects		350.0	
TOTAL - 2004 : 7 Projects		1,045.0	
Total Private Sector 2003 - 2004		0.0	
Total Regular Program 2003 - 2004		2,713.0	

*** Private Sector Project**

PROGRAM FOR SOCIAL PROTECTION AND MITIGATION OF THE IMPACT OF THE CRISIS ON THE POOR

(AR-0295)

EXECUTIVE SUMMARY

Borrower and guarantor:	The Argentine Republic	
Executing agency:	Ministry of Economic Affairs	
Amount and source:	IDB: (OC-Emergency Lending Facility)	US\$1.5 billion
	Total:	US\$1.5 billion
Financial terms and conditions:	Amortization period:	5 years
	Grace period:	3 years
	Disbursement period:	18 months
	Interest rate:	Six-month U.S. dollar LIBOR +400 basis points per annum
	Front-end fee:	1%
	Credit fee:	0.75%
	Currency:	U.S. dollar
Objectives:	<p>The program's objective is to provide fast-disbursing funding to support measures to be taken by the Argentine government to preserve macroeconomic stability. A concurrent goal will be to make certain that public spending on poverty-targeted national social service delivery programs is maintained at adequate levels and made more efficient and effective. To that end, support will be provided to the National Council for Social Policy Coordination (CNCPS) to integrate and coordinate social policy and community social networks that can help make for more transparent, efficient anti-poverty efforts.</p>	
Description:	<p>Disbursements for the program, an emergency sector operation, would be contingent upon the Argentine government's pursuit of concrete actions in the following areas: (i) agreement on and effective operation of a stabilization program with the International Monetary Fund (IMF); (ii) protection of Priority Social Programs (PSPs); (iii) advancing the government's social strategy by way of actions and instruments that assure policy continuity and enhance the efficiency</p>	

and effectiveness of social program administration; and (iv) support for strategic advances in health, education and social development. The conditions are set forth in a conditionality matrix for the proposed program (Annex I), which encompasses all the program's action focuses described in the following paragraphs.

Agreement on and effective operation of a program with the IMF:

A first-tranche condition for this policy area is evidence that the Government of Argentina and the IMF have entered into an agreement. For the second tranche the authorities would have to demonstrate to the Bank that the macroeconomic environment agreed upon with the IMF is being preserved.

Priority Social Programs (PSPs): From a social impact standpoint, the PSPs selected for protection are designed to: (i) protect human capital investment in indigent families and those living in extreme poverty; (ii) alleviate the food emergency in the country, and (iii) tackle public health challenges triggered by the crisis, limiting contagion of diseases that are cheaper to prevent than to treat and ensuring access to essential drugs. Consequently, the PSP offerings can be viewed as a basket of services or benefits for poor and indigent families (Annexes II and III).

Total PSP protection comes to Arg\$1.457 billion, which is 4.03% of budgeted national government social spending for 2003. The PSPs account for 2.26% of overall national public spending. Though it is difficult to come up with exact figures in the present volatile macroeconomic climate, using Ministry of Economic Affairs assumptions, the PSPs would equal 0.27% of gross domestic product in 2003.

Social policy efficiency and continuity: The program will provide support for the regulatory mechanisms and checks required to ensure efficient decentralized operation of the PSPs, those functions being centered in the National Council for Social Policy Coordination (CNCPS). CNCPS tasks that would be supported by the program are to: (i) articulate and coordinate the social policies and programs of sectors that operate targeted social programs; (ii) strengthen the Social Program Information, Evaluation and Monitoring System/Beneficiary Household Identification and Registry System (SIEMPRO/ SISFAM) so as to ensure that their beneficiary identification and selection tools are compatible with each other and with the National Taxpayer and Social Identification System (SINTyS); (iii) provide a single, consolidated registry of social program beneficiaries in order to avoid duplication, ensure that the programs are better interfaced and mutually complementary and that they have more of an impact on the benefiting families; and (iv) ensure that there are public participation

and community initiative and oversight mechanisms and avenues in place.

The outputs and outcomes sought in this social policy area are more and better social-expenditure targeting tools and procedures, common methodologies for program monitoring and evaluation, databases compatible with the SINTyS database, and mechanisms for societal oversight and community initiatives for national programs with decentralized operation. The goal is to make these programs more efficient, heighten their impact, and enhance transparency in decision-making on resource allocation for social programs.

Strategic advances in each social sector: Each of the sectors that together comprise Argentina's core social safety net—health, education, and social development—has taken steps and launched short-term programs to respond immediately to problems triggered by the crisis. These sector programs are still shielded among the PSPs. For the medium term there are efforts under way within each sector to keep the emergency situation from jeopardizing the modernization gains being achieved by current sector policies. The Bank will assist these sectors in their pursuit of their medium-range strategies, to ensure that measures which mark sector strategy gains (described below) are not reversed.

The government's strategy for the *health sector* envisages moves to quickly tackle the health emergency in tandem with institution-building moves to strengthen the public health apparatus, the aim being to maintain the quality and equity of health services after the emergency has passed. Support will be provided to lay the foundations for an increase in coverage and improvements in quality of public health services to assure a more equitable supply and make sure that the country's poorest are protected during episodes of crisis.

The aim in the *education sector* is to ensure the sustainability of targeted sector policies by improving the permanent education information system. This will mean adopting indicators to classify schools by socioeconomic stratum of their catchment area, to be able to target the distribution of school supplies equitably and make it easier to equalize outcomes in student populations where there are differences in families' cultural and social capital.

In the *social development* sphere, support is planned for interventions to make measures and programs sustainable after the crisis, make spending more efficient, and make interventions more effective. The aim is to steadily articulate similar programs by programmatic area (food, housing, minimum income).

The Bank's country and sector strategy:

Priority social-sector focuses in the Bank's country strategy are poverty reduction and improvements in living standards. An additional concern is efficient social services coverage and delivery within a framework of rationalized social spending.

The new socioeconomic environment required adjustments in the operations program in order to: (i) incorporate tighter fiscal restraint; (ii) protect social spending; (iii) support economic revitalization through loans to the productive sectors and provincial reforms under the new agreement with the national government; and (iv) help sustain policy reforms. The focus in the short run is to rationalize the portfolio to support social protection and safety-net initiatives, rekindle economic activity and make the productive sectors more competitive. The proposed program pursues that strategy, offering support to the Argentine government to help shield social spending through selected priority programs and support for measures to prevent any setback in current social policies.

The Bank is prepared to furnish a total of US\$2.5 billion in emergency lending to assist Argentina's poverty reduction and social policy maintenance efforts. It would release US\$1.5 billion of the total by way of the loan proposed here and the US\$ 1 billion balance in a follow-on operation to be prepared for the second half of 2003.

Coordination with other official development agencies:

The dimension of the Bank's proposed support to Argentina by way of this program is being worked out with due regard to the support the World Bank is currently examining with the country. There has been an ongoing dialogue with World Bank specialists and officers to make sure the two agencies' operations complement one another and to avoid overlaps.

Likewise, there has been continuing dialogue with IMF authorities. One feature of the proposed program is that disbursements are contingent, inter alia, upon Argentina reaching agreement with the IMF on a stabilization program and on the agreement's effective operation (see paragraph 2.2).

Environmental and social viability:

Because of the special nature of this program, as an operation affording budget support for spending on existing social initiatives, no direct environmental impacts are anticipated. It entails no new actions for which an environmental impact assessment would need to be conducted (see paragraph 4.6).

On the social-impact side, the program is expected to help protect spending on programs targeted to the poor and the vulnerable and thereby help alleviate poverty in the environment created by the emergency. Though the operation will be protecting social spending

and furthering the Argentine government's efforts to strengthen its social strategy and policy, under the Bank's emergency lending guidelines it does not qualify as a poverty targeted or social equity enhancing operation (see paragraph 4.7).

As for gender considerations, the program recognizes mothers' role in halting the intergenerational bequeathing of poverty and prioritizes programs that deliver benefits directly to mothers, for instance the Income for Human Development initiative. Mothers of children entitled to benefits under that program must pledge to keep their children in school or send them to childhood development centers where pertinent; this in turn will help boost female productivity. To determine whether PSPs are helping to enhance equity and social inclusion in vulnerable groups, an ethnicity dimension will be built into the beneficiary registers and Consolidated Beneficiary Register.

Benefits:

Budget protection for PSPs will help cushion the effects of the financial crisis on Argentina's poorest and most vulnerable and prevent a potentially irreversible erosion of social capital. Furthermore, within the framework of the country's agreements with the IMF to restore macroeconomic stability, the program will help strengthen the government's social strategy and instruments used to prioritize, coordinate, rationalize and target the main social protection interventions directed toward the very poor. Lastly, strategy efforts in the health, education, and social development sectors will be furthered, with the aim of preventing the emergency from reversing the gains achieved thus far.

Risks:

Process continuity: The present administration's term ends in May 2003, whereupon new authorities might take a different position as to priority of protected programs and the social-matrix undertakings. The following measures are provided for to address that eventuality: (i) budget protection, by including PSPs in the 2003 Budget Law; (ii) strengthening of societal oversight by fostering active civil society involvement in oversight and support for the emergency programs; and (iii) an emphasis on the demand side, to make sure that programs are geared to needs.

Sustainability of programs: Actions taken to contend with the emergency could mean deferring or sacrificing instruments for social policy regulation that assure its efficiency and efficacy. So that there is no halt in investment in such social policy regulating instruments, the social matrix will include the monitoring of strategic actions such as targeting instruments, the Consolidated Beneficiary Register, and information systems and databases that afford assurances of the programs' efficiency and continuity.

Countercyclicity: Since not all the programs have clear provisions as to when and how a beneficiary ceases to qualify, spending on these programs is unlikely to drop when the economy picks up. This risk will be attenuated by across-the-board improvements in poverty targeting mechanisms, with periodic checks of beneficiaries' income status to ascertain which households have risen sufficiently out of poverty to cease qualifying for benefits.

**Special
contractual
conditions:**

Each tranche release would be contingent upon fulfillment of the policy actions agreed for the tranche, as specified in Chapter II and Annex I of this loan document.

A condition precedent for the first tranche specifically, in addition to the conditionality matrix requirements and conditions precedent in the General Conditions of Bank loan contracts, will be that an Executive Coordination Group has been set up and is fully operational, with the program's General Coordinator and Social Policy Coordinator appointed as well as all the sector coordinators (health, education, social development, and SIEMPRO/SISFAM).

**Poverty-
targeting and
social sector
classification:**

Though the operation will be protecting social spending and supporting strategic actions in the social sectors, under the Bank's emergency lending guidelines (document GN-2031-10) it does not qualify as a poverty targeted or social equity enhancing program (see paragraph 4.7).

**Exceptions to
Bank policy:**

None.

I. FRAME OF REFERENCE

A. Macroeconomic setting

1. Recent trends

- 1.1 The severe crisis that beset Argentina toward the end of 2001 shook its economy and exacted a high social toll. In the early months of 2002 the country found itself facing the enormous task of rebuilding confidence in its institutions and developing a sustainable macroeconomic framework that could put the economy back on the road to recovery. As a consequence of the last few months of negotiations, in mid-January 2003 the Government of Argentina reached an agreement with the International Monetary Fund (IMF) on a short-term transitional program. The agreement covers the period from January to August 2003.
- 1.2 The vicious circle in which the country had been caught—a sluggish economy, an overvalued currency, and mounting debt—reached its limit in late 2001. Faced with a drying up of capital inflows and runs on banks, the government ordered a partial freeze on bank deposits (called the 'corralito'). The ensuing suspension of payments to private creditors, peso devaluation and asymmetric conversion of dollar-denominated assets and liabilities impaired the financial system's solvency and liquidity. These measures all but paralyzed the payments system and lines of credit, with grave consequences for the goods and services sectors.
- 1.3 According to 2002 estimates, gross domestic product (GDP) was down 11%. While GDP had dropped 16.3% and 13.5% in the first and second quarters of 2002, respectively, compared to a year earlier, the decline slowed to 10.1% and 4.3% in the third and fourth quarters of 2002, respectively. Starting in April, the downturn in industrial activity leveled off, with cumulative growth in the industrial production index of 7.5% between April and November. The most dynamic sectors were the tradable-goods sectors, which continued to grow strongly during the last quarter. The best performing branches included vegetable oils and by-products, textiles, basic chemicals, fabricated metal products, and auto parts. Conversely, activity in the nontradable-goods sectors, focused primarily on the domestic market, slowed even further in the fourth quarter, inasmuch as demand remained low. Food products and beverages, processed petroleum, construction inputs, and automobiles bear mentioning, among others.
- 1.4 The unemployment rate, which was running at 18.3% in October 2001, climbed to 21.3% in May 2002 (while 18.6% of the economically active population was underemployed), according to National Statistics and Census Bureau (INDEC) figures. In October there were signs of improvement in the supply of jobs and there has been a decline in the unemployment rate, to 17.8%, according to household survey data. This slight progress is due to the fact that between May and October 2002, the increase of 404,000 new people in the economically active population

was more than offset by the offer of 861,000 new jobs, of which 530,000 have been acquired through the (male and female) Unemployed Heads of Household plan.

- 1.5 Argentina's January-November 2002 trade surplus was estimated at US\$15.195 billion, compared with the corresponding 2001 figure of US\$5.257 billion. Fueling the increase have been a 5% drop in exports and a 58% decline in imports owing to soft domestic demand. Among exports, agricultural manufactures accounted for the steepest rise (10%); the consumer-goods sector lost the most ground (-73%).
- 1.6 Following the early-2002 decision to let the peso float freely against the U.S. dollar, the exchange rate depreciated from peso-dollar parity to 3.5 pesos to the dollar in May 2002 and was more stable, ranging between 3.4 and 3.8 in the months that followed. This strong peso devaluation had a relatively moderate effect on prices, monthly increases having trended down since May. Cumulative inflation to December measured by the consumer price index was 35.1%; the cumulative increase in wholesale prices stood at 118.2%. The price of the basic food basket used to calculate the incidence of indigence soared 69.4% in 2002.
- 1.7 Argentina's foreign reserve levels plummeted in the first half of 2002 following Central Bank interventions to contain the financial instability and dissipate economic uncertainty. The US\$9 billion in reserves in July 2002 was less than half the US\$19.7 billion on hand at the start of the year. Thanks to the easing of pressures on exchange markets since July, reserve levels have risen slightly, to US\$10.664 billion in mid-January 2003. This improvement in the foreign reserve position occurred despite the sterilization efforts required to offset the court-ordered releases of deposits (*amparos*), which totaled Arg\$9.5 billion in 2002. During this period, private deposits in the banking system began to recover; after having dropped from Arg\$72.598 billion in January 2002 to Arg\$56.155 billion in July, they rose to Arg\$59.933 billion in December, reducing the need for the Central Bank to assist the financial system and cutting the costs of intervention. This has made possible a full release of demand deposits ('corralito') and an increase in the limit for withdrawals of rescheduled fixed-term deposits ('corralón') without significant impact on the exchange market.
- 1.8 With regard to the fiscal situation, since May 2002, the nonfinancial public sector has achieved a primary surplus as a result of the nominal level of primary spending being maintained, while there has been a growing improvement in tax revenue collection in nominal terms, after 11 months of year-on-year declines. In April the cumulative fall in aggregate revenues stood at 17%; for May-December the year-over-year comparison shows an 11.4% rise in nominal terms. In real terms, however, both tax intakes and primary spending have trended down.
- 1.9 The 2003 national budget approved by the Congress in late December 2002 projects GDP growth of 3%. With the adjustments agreed upon with the IMF, an average

variation in the consumer price index of 34.6% is assumed. The primary surplus is expected to rise from 0.5% of GDP in 2002 to 2.5% in 2003. Notwithstanding efforts to contain primary spending—a reduction equivalent to 1.5% of GDP with respect to 2002 is projected—expenditures on the social safety net will increase from 0.6% of GDP in 2001 to 1.2% in 2003.

- 1.10 The Budget Law also reflects agreements being signed between the Argentine Nation and provincial governments, the deficit having been cut on average by over 50% in 2002 with respect to the 2001 figure. For 2003, a primary surplus equivalent to 0.4% of GDP is anticipated, compared with a primary deficit of 0.5% of GDP in 2002. By the end of the first quarter of the year, provinces together accounting for 80% of the 2002 consolidated provincial deficit are expected to have entered into such agreements.

2. Agreement with the International Monetary Fund

- 1.11 Since the December 2001 suspension of the program with the IMF, the Argentine authorities have pursued an intense dialogue with that institution to come up with a new agreement for an economic program that can help move the country out of the crisis. In mid-January 2003, the government reached an agreement with the IMF for a short-term transitional program that seeks to preserve economic stability and strengthen the economic recovery, while reducing the risk of policy reversals. This program will also provide a framework for the multilateral development banks to support social programs in Argentina, which are key to protect the vulnerable groups from the adverse effects of the crisis. The government has developed a series of policy commitments that could, if implemented consistently and credibly, build a bridge to a comprehensive program to be negotiated with a new government after next April's elections, capable of overcoming the deep structural problems facing the country.
- 1.12 The main objectives of the transitional program are to guarantee fiscal, monetary, and banking-system stability and to rebuild the confidence of domestic and foreign investors, while maintaining equitable treatment among the parties, protecting property rights, and defending the rule of law. The program covers the period from 1 January to 31 August 2003, during which time estimated financing from international financial institutions will total US\$11.6 billion, including elimination of arrears with those institutions. Financing needs are expected to be covered through new disbursements and extensions of buy-backs on the part of the IMF, new IDB and World Bank disbursements, and the request for Paris Club creditors to reschedule debts. During the duration of the transitional program, the government will not accumulate unpaid arrears with bilateral and multilateral creditors.

B. Social conditions and social spending

1. Poverty and social inequality

- 1.13 The economic crisis described at the start of this proposal, the most protracted and severe in recent history, has significantly worsened the social situation, as the country's sharp increases in poverty and income inequality and rising unemployment rolls attest.
- 1.14 According to September 2002 data from the Social Program Information, Evaluation and Monitoring System, 20 million people were living in poverty in Argentina, 9.6 million of them indigent. Families with children and teenagers were most likely to be poor. Over 4.5 million children under age 12 (72.3% of that age group) live in poor households; 2.5 million of them are indigent. The situation is worse still in the northeastern part of the country and outlying areas of metropolitan Buenos Aires, where 73.7% of households with children are poor and 37.2% are indigent. An estimated 9 million children and teens are living in poverty, and 16% of young people between 15 and 24 neither go to school nor work.
- 1.15 Deteriorating labor conditions have compounded the social situation. Some 750,000 jobs have been lost, 351,000 of them in Greater Buenos Aires. More than two in ten workers were unemployed and nearly two underemployed. The poor have difficulty finding decent jobs, not just because unemployment is so high but also because so few jobs offer benefits: in only one in four poor households does some member of the household have job-related benefits.
- 1.16 Income inequality also has worsened considerably in recent years. The gap between the top and bottom deciles widened from 34.5% in October 1999 to 39.5% in October 2000 and 46.4% in October 2001. Meanwhile, as was noted in paragraph 1.6, prices of food staples have increased more than prices of other components of indigent families' basic basket.
- 1.17 The employment situation in June 2002 was critical. Job numbers had been falling since the 1990s; by mid-2002 only six in ten active members of the workforce had full-time jobs, two in ten were out of work and two were underemployed. The unemployment rate hit an all-time high of 21.5% in June but dropped to 17.85% in October. As a corollary, more and more of the population were left vulnerable: two in ten poor heads of household are unemployed; in over 20% of poor families no one has gainful employment, and 83% of poor households have dependent children under 18.
- 1.18 In this high-unemployment environment the traditional face of poverty is changing, as more and more households with higher education levels slip below the poverty line. Only a quarter of poor heads of household have not finished primary school; 33% have some secondary schooling. Nevertheless, it is the poorest families who

have been hit hardest by the crisis, since children and teens account for half the poor population and over a fifth of poor households are single-parent families. In outlying districts of Buenos Aires, 68% of the population is subsisting below the poverty line, compared to 19% of city dwellers. Rises in indigence across Greater Buenos Aires are uneven as well: 33.4% of the population living in the periphery is poor compared to only 6% in the city itself.

- 1.19 According to the data, this increase in the ranks of the poor and indigent is not heavily affecting children's school attendance. However, one result of the crisis is overcrowding in the homes of the poor and less attention to children's health, which in turn is pushing up the numbers of malnourished children and those contracting diseases such as tuberculosis.

2. Government social spending

- 1.20 For two decades Argentina's social spending per capita has been among the highest in Latin America. Between 1993 and 2001, consolidated public social spending equaled 20.8% of average annual GDP; the 2001 figure was 21.8% of GDP, the highest since 1993. Social spending accounts for a considerable share of overall government expenditure, holding at around 60% of the total. But the bulk of social budgets go for social security, with only around 15% being allotted for targeted poverty reduction programs.
- 1.21 Between 1991 and 1994 social spending as a share of the total soared in real terms, reflecting increased national spending on social security, Comprehensive Health Insurance for retirees and pensioners, and higher education. Provincial government social spending rose sharply as well, largely following the decentralization of health and education services. In 1991 the national government executed 58% of all social spending and the provincial governments 35%. By 2001 these figures had shifted to 50% and 42%, respectively.
- 1.22 However, analyzing social expenditures as a percentage of GDP or of total government spending does not give a complete picture of what social spending represents in terms of resources actually targeted to poverty reduction, as the following paragraphs will show. Social spending in Argentina falls into two categories: (i) social insurance spending for the formal sector—social security, the *obras sociales* plans covering people in an employer-employee relationship, family allowances and unemployment insurance—since it is funded in part by employee and employer contributions; and (ii) social-sector spending, i.e., outlays for education, culture, science and technology, health services, water and sewer systems, housing and urban development, social promotion and assistance, and labor, which comes out of general revenues and earmarkings or is funded with external resources. A functional analysis of consolidated social expenditure for 1991-2001 shows spending to be heavily concentrated on social security, which

accounts for 40% of the total. Since this hefty share of social spending benefits mainly formal-sector workers, it is not poverty targeted.

- 1.23 Social-sector spending, too, can be divided into two kinds of expenditure—universal programs and targeted programs, the latter being significantly smaller than the former, having come in for between 14% and 16% of social spending between 1997 and 2001. An estimate of national monies targeted to poverty reduction points to an increase in nominal terms but an erosion in real terms, once inflation is factored in. In 2002 a total of Arg\$30.764 billion was expended on such efforts and the 2003 forecast is for an outlay of Arg\$37.124 billion; but a 45% inflation scenario would signify close to a 14% decline.
- 1.24 In sum, to address incremental social needs in the environment created by the crisis and the inflation-driven real decline in social spending generally and spending targeted to the poor and the vulnerable in particular, there is an evident need to support the country in protecting programs targeted to the poorest and in targeting social spending more efficiently.

C. Social policy challenges

- 1.25 Argentina's social safety net has been marked by fragmentation and scant coordination between the various social policy makers. The result has been a multitude of small programs with high operating costs and overlapping functions, some of which have ended up being inefficient or ineffectual. This same situation has made it very difficult to adjust programs and extend their reach to help counter the effects of the crisis. Consequently, even though a respectable share of the public budget is allocated for social spending, there is no system in place to address the existing levels of poverty and social inequality that are most severe among society's most vulnerable.
- 1.26 Over the past five years or so, to enhance these programs' efficiency and make for more cohesive social policy, the Argentine government has been implementing, with Bank support, a beneficiary identification and targeting strategy along with social program monitoring and evaluation mechanisms. Historically, the Social Program Information, Evaluation and Monitoring System (SIEMPRO) has performed these functions. Today, along with the National Taxpayer and Social Identification System (SINTyS), they fall under the National Council for Social Policy Coordination (CNCPS). SIEMPRO systematically tracks social programs and produces information on their coverage, services and benefits delivered, and budget execution, which is published on a web page.
- 1.27 Using the Consolidated Beneficiary Household Identification and Registry System (SISFAM), a census-like survey of poor households is conducted at regular intervals. Data from this survey and the Standard of Living Index have been used to put together a socioeconomic profile of the poorest families, pursue objective

beneficiary-selection approaches, and target programs to the most vulnerable. As of September 2002, SISFAM included more than 700,000 families.

- 1.28 However, this figure falls short of what will be needed to increase coverage targets in the emergency environment and quickly cross-reference the above-mentioned databases with SINTyS databases to pick up discrepancies and duplicates. Moreover, SIEMPRO has evaluated social programs in accordance with the particular demands of each program and/or province, not having to date built sufficient capacity to be able to expeditiously respond to the demand for extended coverage.

D. Challenges in the health, education and social development sectors

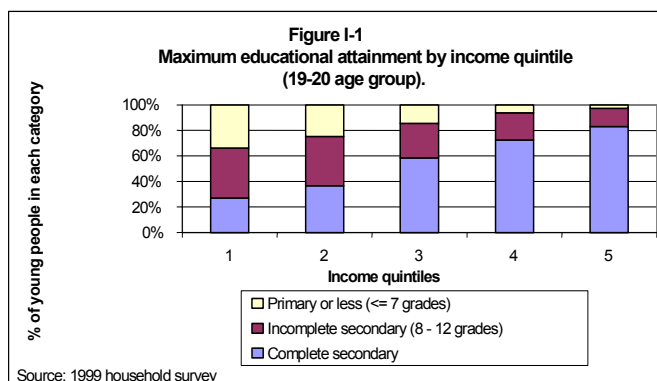
1. Health

- 1.29 Virtually everyone in Argentina has access to health services through one of three subsystems: the *obras sociales* benefit plans (national or union-run, provincial or Comprehensive Health Insurance Plan), HMO-type (prepaid) private health care plans, and public hospitals and clinics. The *obras sociales* funded by employer and employee contributions deliver benefits to formal-sector workers and retirees and pensioners. Private plans serve the higher-income strata (today a very small share of the population). The public health care network, which was decentralized to the provinces in 1993, serves lower-income clients and the most vulnerable segments of the population.
- 1.30 Since the early 1990s *obras sociales* clients have been abandoning their health plans and turning to the public system for care. With the current unemployment crunch more and more of them are making the change. This migration to the public system has been heaviest in the bottom income quintiles and among young people. The result has been mounting pressure to expand a public health system that is trying to serve a growing number of people with facilities that are in bad straits primarily because of a lack of basic supplies and essential drugs.
- 1.31 To tackle this crisis the government released a health-emergency order in March 2002 designed to: (i) rebuild stocks of drugs and supplies in public in-patient facilities; (ii) assure the supply of drugs to outpatient facilities that treat socially vulnerable groups; and (iii) ensure that the public has access to drugs and essential supplies to prevent and treat infectious diseases.
- 1.32 Against this backdrop the government is focusing on safeguarding public health programs with strong positive externalities, such as delivery of essential drugs for heads of households living below the poverty line, mass children's vaccination campaigns, and epidemiological surveillance programs to prevent infectious and contagious diseases. Another of its aims is to ensure that there are resources for hospitals to obtain supplies that are critical for their operation and to deliver needed

care. The object of these measures is to avert any increase in the burden of disease and mortality among the poor, particularly mothers, children and the elderly poor.

2. Education

- 1.33 In today's world, education is one of the chief determinants of earning capacity. To confirm that the global economy is demanding increasingly skilled workers one has only to look at the widening income gap between different occupations. Between 1990 and 1998, according to household survey data, professionals' pay rose 52.5% while unskilled workers saw their incomes drop 2.7%.¹ In 1998 the rate of return to primary education was 2.5%; for high-school graduates the return quadrupled to 10%.
- 1.34 Argentina's education system is not equipped to rise to this challenge. Virtually every child between 6 and 13 has access to primary schooling but only 75 in 100 children who enter the system end up completing the nine years of basic education and only 50 make it to the last year of high school. According to 1999 household survey data, it is the poorest who end up without diplomas. As the following chart shows, only 27% of 19- and 20-year-olds in the bottom quintile have finished secondary school (12 years) compared to 83% in the wealthiest quintile. Less than half the young people in the lowest income quintile have completed the nine years of basic schooling, compared to 93% of their top-quintile counterparts.



- 1.35 In the current crisis conditions there is a serious risk of a rise in dropout numbers, though it is difficult to measure this in the crisis setting because there are no data for 2002. Given what families have to pay out-of-pocket to send their children to school—supplies, transportation, food, and clothing—and declining school quality (underfunded school lunch programs, instructional materials that run out and are not replenished, deteriorating plant) there is a risk that children will stop attending regularly, whereupon the risk of lower learning levels, grade repetition, and ultimately dropout rates could increase exponentially. Low-income students are

¹ *Poor People in a Rich Country: A Poverty Report for Argentina*. The World Bank, December 1999.

particularly at risk. Accordingly, the most pressing challenge in a social and economic emergency is to make sure that children now enrolled in school keep attending and to aim for more regular attendance and better quality schooling, to keep repeater rates from rising and avoid the risk that the poorest children might not go to school at all.

3. Social development

- 1.36 For the most part, projects designed to improve the lot of Argentina's most vulnerable populations fall within the purview of the Ministry of Social Development (MDS), which is currently managing a total of 25 programs targeted to different sectors of the indigent, poor and vulnerable population. When the crisis broke out, in order to respond quickly and effectively, national and external sector resources were shifted to pursue three action focuses: food aid, housing assistance, and minimum income transfers to families with children under 18.
- 1.37 Underpinning this rearrangement of the ministry's pool of programs was a short-run intervention strategy that allowed it to prioritize projects and concentrate resources to fund them, based on the capacity of institutional providers and the target population's most pressing needs. However, while that strategy is being firmed up the MDS is managing a mix of projects, some of them pursuing the priority focuses and a set of others being implemented somewhat disjointedly.
- 1.38 There thus are overlaps in programs not just in terms of beneficiaries but also in duplication of benefits. Compounding the problem is the variety of different registry systems in place for MDS program beneficiaries, which makes it difficult to take rigorous decisions on targeting levels for programs aimed at the poor and the most vulnerable (children and teens, youth, women, the elderly, indigenous communities), uncover benefit duplications if any, and monitor beneficiaries' situations to measure the interventions' impact. That being the case, one priority is to strengthen the MDS so it can improve its program interfaces, employ tools to make its work more efficient, and further hone the targeting and heighten the impact of its programs on the vulnerable population.

E. The Argentine government's strategy to address the social emergency

- 1.39 As outlined in the policy letter presented to the Bank (Annex IV), the Government of Argentina has a strategy pursuing two kinds of goals—for the near term and the medium term. To contend with the emergency in the short term the country is carrying through measures to cushion the crisis's impact on transitory poverty, so as to put income redistribution mechanisms in place that can ensure, in the short run, a minimum consumption "floor" regardless of a person's employment status. The medium-range plan for tackling the social situation calls for actions to prevent chronic poverty through mechanisms to equip the poor with skills and resources (education, health, employment) with which they can subsequently earn a living

and be self-supporting. These two strategy avenues are described in the following paragraphs.

- 1.40 **Short-term strategy.** The centerpiece of government moves to manage the crisis was the enactment of an Emergency Law and a package of complementary laws and regulations empowering the government to quickly and effectively resolve the most pressing economic, policy, administrative and social needs, with the involvement of all public-sector players. For institution-strengthening, the government created the National Council for Social Policy Coordination (CNCPS) chaired by the First Lady. Its core mandate is to articulate and optimize national social policy resources, coordinating actions of the Social Development, Labor, Education, Health, and Economic Affairs ministries. The Council's Executive Secretariat is in charge of strategic planning for the national government's social policies and programs and of coordination and interface of the work of national policy agencies. Another of its terms of reference is to design, administer and update information systems to enhance the effectiveness and efficiency of national, provincial and municipal social policy and planning. To help it perform these tasks the CNCPS uses the SIEMPRO-SISFAM information system and the National Taxpayer and Social Identification System (SINTyS). Another of the Council's mandates is to put in place mechanisms for societal oversight of the use of public social funds and to make government employees publicly accountable.
- 1.41 In early 2002 the government launched the Social Emergency Plan (SEP) as a tangible response to the worsening crisis. Its central focuses are: (i) grants to unemployed heads of household (male and female); (ii) aid to resolve the food emergency; and (iii) delivery of basic health goods and services. Adjuncts to the SEP are grants for school attendance and assistance for housing improvements in low-income communities.
- 1.42 The SEP has received firm IDB support, the Bank's Board having approved a reformulation and reorientation of social-sector loans on 27 March 2002. The proposal encompassed 12 loan contracts totaling US\$694.2 million in funding that was redirected toward the following programs: (i) Income for Human Development; (ii) School Retention Grants; (iii) Primary Health Care; (iv) Barrio Improvement; and (v) Integrated Social Program Monitoring System and Consolidated Social Program Beneficiary Identification and Registry System. Projected total disbursements to December 2002 are US\$70.6 million, roughly 36% of the disbursement estimate for Bank projects in Argentina this year.
- 1.43 The primary aim of the "Unemployed Heads of Household" program administered by the Labor Ministry and of the MDS-administered Food Emergency Program is to address the problem of unemployment in families, regardless of their poverty level. Unlike the programs that would come in for protection in the operation proposed here, there are no targeting mechanisms in the aforementioned programs to make sure that benefits go first and foremost to the poorest. The benefits of the

Unemployed Heads of Household program, for instance, are not reaching the very large number of indigent and poor families whose breadwinner is unskilled, self-employed, inactive, or receives low off-book wages with no benefits and no social security, or is a formal-sector worker whose earnings put the family below the poverty line. An estimated 70% of the poorest and indigent families with children under 18 are in this situation; most of them would qualify for the benefits basket offered by the Priority Social Programs that the emergency operation proposed here is intended to protect.

- 1.44 The beneficiaries of the Heads of Household program are male and female household heads with children under 18 or with a family member of any age with a disability. They receive a monthly allowance of Arg\$150 in exchange for employment and school-attendance commitments. The total 2002 budget appropriation is Arg\$1.7 billion. By the end of this year some 1.8 million heads of household are expected to have benefited from the program. In addition the government has instituted safeguards to protect that program's budget,² which has not been the case with social programs targeted to the poor and the indigent. Accordingly, the strategy embodied in the Heads of Household program needs to be complemented with measures to protect the poorest and the newly indigent, to avert a potentially irreversible loss of cumulative human capital.
- 1.45 **Medium-range strategy.** The Argentine government is pursuing a proactive, preemptive strategy to avert any loss of accumulated social capital, put an end to intergenerational poverty, and help equip beneficiaries to earn an income.
- 1.46 In addition, the government is seeking to bring in institutional measures to make for more efficient resource management and use. To that end, as outlined in the policy letter submitted to the Bank, the government has pledged to: (i) foster societal oversight of the use of public funds for social protection and make public servants accountable to the citizenry; (ii) encourage the participation of civil society organizations and the private sector in social policy development and auditing; (iii) make sure that social policy actions are sustainable and equitable, targeting above all the most vulnerable groups and making optimal use of available resources; (iv) take care to make social policy financially sustainable, matching sources and uses of funds and building in incentives for subnational governments to observe that principle in their operations; and (v) solidify the gains achieved with the Integrated Social Program and Policy Monitoring and Evaluation System and make sure that the Consolidated Beneficiary Register is fully in place.

² By way of Resolution 82/2002 the Ministry of Economic Affairs instructed the Secretary of Finance to report on the status of budget lines that could qualify under one or more criteria, such as irrelevance of the function and size of the budget allotment, real or apparent overlap of functions, etc., in order to cut spending and thereby create savings that could help operate the Heads of Household program.

- 1.47 To reduce the fragmentation of programs and remedy the lack of coordination between the various sector agencies (Health, Education, and Social Development ministries), which is making for inefficient social spending, the CNCPS would work to steadily integrate most of the existing social programs, to see that they address needs throughout the entire life cycle and provide comprehensive support and services for poor families.
- 1.48 The program proposed here will help achieve these strategy aims and objectives by protecting the budget for priority social programs. This is expected to have an immediate poverty-alleviation impact and to help strengthen institutional and technical instruments already in place, so as to prevent any erosion of the sectors' institutional capacity to efficiently and effectively administer social policies. This Bank support is needed at a time of crisis where fiscal pressures on the budget could prompt across-the-board cuts without prioritizing essential spending and investments to cushion the effects of the crisis on low-income groups. The emergency also threatens the continuity of the mechanisms now available for targeting social programs and making them efficient and equitable.

F. Bank action

1. Rationale for the program

- 1.49 The focus of the proposed operation is to support Argentina in its efforts to protect programs and enhance the efficiency of targeted social spending, and to further actions envisaged in the country's medium-range strategy to preserve human capital investment. The country's grave economic situation and declining standard of living is making it difficult for the poor and the needy to find social services and is jeopardizing the very sustainability of the social safety net. This is particularly worrisome in the country's current circumstances: not only are the poorest families at risk, but the crisis could jeopardize the use of information and evaluation systems and other tools that are the cornerstone of social program efficiency. Unless support is provided for quick, effective solutions, the structurally poorest segment of the population could lose several years of human development even as the ranks of the newly poor and indigent, born of the crisis, come up against this same risk.

2. The Bank's strategy

- 1.50 Priority social-sector focuses in the Bank's country strategy are poverty reduction and improvements in living standards. An additional concern is efficient social services coverage and delivery in a framework of rationalized social spending.
- 1.51 The new economic environment required adjustments in the operations program in order to: (i) incorporate tighter fiscal restraint; (ii) protect social spending; (iii) support economic revitalization through loans to the productive sectors and provincial reforms under the new agreement with the national government; and

- (iv) help sustain policy reforms. The focus in the short run is to rationalize the portfolio to support social protection and safety-net initiatives, rekindle economic activity and make the productive sectors more competitive. The present program pursues that strategy, offering support to the Argentine government to help shield social spending through selected priority programs and support for measures to prevent any setbacks in current social policies.
- 1.52 The Bank is prepared to furnish a total of US\$2.5 billion in emergency lending to assist Argentina's poverty reduction and social policy maintenance efforts. It would release \$1.5 billion of the total by way of the loan proposed here and the US\$1 billion balance in a follow-on operation to be prepared for the second half of 2003.
- 1.53 The dimension of the proposed Bank support to Argentina through this program is being worked out with due regard to the support the World Bank is currently examining with the country. There has been an ongoing dialogue with World Bank specialists and officers to make sure the two agencies' operations complement one another and to avoid overlaps.

G. Lessons learned

- 1.54 The Bank now has considerable experience in sector lending in countries such as Argentina, Brazil, Colombia and Peru. These emergency packages, delivered in coordination with the IMF and World Bank: (i) have brought short-term calm to financial systems; (ii) have injected liquidity into the respective economy; (iii) have strengthened reforms that are expected to spur economic growth in the long term; and (iv) have helped preserve funding for social programs that are key—by virtue of their content and targeting—to maintaining the standard of living of the population.
- 1.55 The Bank's social emergency loans to Argentina that relate to the operation proposed here are the US\$2.5 billion banking sector adjustment loan (1163/OC-AR) approved in 1998 and the US\$400 million sector loan for support for fiscal equilibrium and social management (1295/OC-AR) approved in 2001. The 1998 loan has been disbursed in full; according to the Office of Evaluation and Oversight (OVE) report, the borrowers more than fulfilled the conditions centering on protecting social spending for the poor during episodes of crisis, and the operation thus provided an important social cushion during the upheaval. As for the social-sector loan conditionality, that operation is considered to have achieved its targets. Specifically, the use of the new poverty measurement methodology, the consolidation of nutrition programs in the Food Emergency Program, and use of health and nutritional status indicators to target these programs mark significant advances in the social policy arena, which will be taken as a foundation for the next required steps in the operation proposed here.

- 1.56 Loan 1295/OC-AR, the last disbursement of which was released in September 2002, strengthened the SINTyS and thereby laid the foundation for efficient social program targeting. Complementarity of the PSP and SINTyS databases, which is already operative, will enable PSP beneficiaries to be identified for the present operation. The proposed program will proceed with technical capacity-building for social program evaluations, starting with an evaluation of all the PSPs. The only evaluation envisaged in loan 1295/OC-AR was of a pilot “Solidarity Program” initiative which was discontinued by the Argentine government.
- 1.57 Drawing as it does on the Bank’s experience in sector programs, this operation will implement approaches that offer the best assurances of sound operational performance and maximum sector impact. For instance: (i) the program will support efforts to institute mechanisms and provide tools that are critical for the pursuit of a social strategy, focusing predominantly on measures and programs in which the Bank has a technical agenda and has previously fostered reforms; (ii) officials responsible in each sector for coordinating efforts with the Ministry of Economic Affairs will be identified; (iii) the availability of funding that each sector requires to fulfill, on schedule, the conditions for each tranche release will be verified; and (iv) an evaluation and monitoring plan will be developed including quarterly monitoring indicators in each program, and the program’s most direct impacts will be evaluated against relevant performance indicators.

II. THE PROGRAM

A. Objectives

- 2.1 The program's objective is to provide fast-disbursing funding to support measures to be taken by the Government of Argentina to preserve macroeconomic stability. A concurrent goal will be to make certain that public spending on poverty-targeted national social service delivery programs is maintained at adequate levels and made more efficient and effective. To that end, support will be provided to the National Council for Social Policy Coordination (CNCPS) to strengthen its regulatory and oversight functions, with a view to better integrating and coordinating social policy and community social networks that can help make for more transparent, efficient anti-poverty efforts.

B. Action focuses

- 2.2 Disbursements for the proposed program, an emergency sector operation, would be contingent upon the Argentine government's pursuit of concrete actions in the following areas: (i) agreement on and effective operation of a stabilization program with the IMF; (ii) protection of Priority Social Programs (PSPs); (iii) advancing the government's social strategy in actions and instruments that assure policy continuity and more efficient and effective social program management; and (iv) support for strategy advances in health, education and social development. The conditions are set forth in the conditionality matrix (Annex I) for the proposed program, which encompasses all the program's action focuses described in the following sections.

1. Agreement on and effective operation of a program with the International Monetary Fund³

- 2.3 A first-tranche condition for this policy area is evidence that the Government of Argentina and the IMF have entered into an agreement. For the second tranche the authorities would have to demonstrate to the Bank that the macroeconomic environment agreed upon with the IMF is being preserved.
- 2.4 As was mentioned in paragraphs 1.11 and 1.12, the Argentina-IMF agreement will be a key element in maintaining an environment conducive to a rekindling of economic growth. The terms of such an agreement are described in the aforementioned paragraphs.

³ There was close contact with IMF officials as this operation was being prepared, to stay current on the status of the talks seeking an agreement.

2. Priority Social Programs

- 2.5 The aim of the program proposed here is to protect the budget for nonwage national expenditure on Priority Social Programs (PSPs) in the education, health, and social development sectors. An analysis was done of the pool of nationally-run targeted programs, consisting of about 70 programs that have the strongest redistributive effect. The programs that make up this large portfolio were examined using data obtained from official information sources and confirmed by the corresponding authorities. Programs that satisfied the following criteria were selected from that larger pool: (i) programs explicitly targeted to the poor, the vulnerable, and people with unmet basic needs, or whose targeting criteria correlate strongly to poverty; (ii) programs reaching at least 250,000 people or 50,000 families a year; (iii) programs executing annual budgets of at least Arg\$10 million; and (iv) programs that address public health interests, with strong positive externalities for society.
- 2.6 A parallel consideration to come up with a final program list was that the selected PSPs should together offer a basket of programs that could offer protection throughout the human life cycle and deliver a comprehensive package of services and aid to benefiting families. Information systems were included as well, as were programs and activities that assist in social program evaluation, monitoring and transparency. IDB-funded programs whose resources were redirected to the Social Emergency Plan will form part of the programs slated for protection, since the criteria that governed their selection are similar to the criteria used for the program proposed here.
- 2.7 The final list of PSPs selected for protection is presented in a matrix of physical and financial targets (Annexes II and III), with an annual budget of roughly \$1.5 billion in 2003. The operation proposed here would protect the 2003 PSP budget (Annex III). Fulfillment of 2003 commitments will be verified by reference to approvals for PSPs in the 2003 Budget Law and physical and financial targets attained by the end of the second quarter of 2003. The maintenance of agreed 2003 spending levels will remain pending for consideration in the operation to be prepared in 2003, referred to in paragraph 1.52.
- 2.8 Total PSP protection in 2003 comes to Arg\$1.457 billion, which is 4.03% of budgeted national government social spending that year. The PSPs account for 2.26% of overall national public spending. Though it is difficult to come up with exact figures in the present volatile macroeconomic climate, using Ministry of Economic Affairs assumptions, PSPs would equal 0.27% of GDP in 2003.
- 2.9 The total amount to be protected is 15.46% of aggregate social expenditure in the health, education, and social development sectors. The largest share of protection would be afforded in the social development sector, where PSPs (totaling Arg\$512 million) make up 17.83% of the overall sector budget. Health-sector PSPs

total Arg\$582 million, or 15.6% of that sector's aggregate spending. Education-sector PSPs come to Arg\$364 million, which is 12.86% of education expenditure. The protected program with the greatest fiscal weight is the Income for Human Development initiative, whose Arg\$327 million budget represents 22% of the PSPs.

Table II-1 Budget impact of PSPs (2003 budget)						
Ministry	Protected expenditure	Sector expenditure	% sector expenditure protected	% social expenditure protected	% of total protected	% of GDP protected
Health	\$581,949,602	\$3,729,495,861	15.60	1.57	0.88	0.11
Education	\$363,845,888	\$2,830,241,102	12.86	0.98	0.55	0.07
Social Development	\$511,509,000	\$2,868,346,941	17.83	1.38	0.77	0.09
Total	\$1,457,304,490	\$9,428,083,904	15.46	3.93	2.20	0.27
Source: Ministry of Economic Affairs						
Note: Table figures do not include SIEMPRO or SINTyS.						

- 2.10 In proportionate terms, the PSP protected amount is 10% of social expenditure, not counting social security, so an eventual fiscal adjustment in 2003 could bear on the other 90%. This leaves a reasonable margin for pursuing an adjustment policy in the event of tighter fiscal restraint, without affecting PSPs that benefit the country's poorest and avoiding a further erosion of social capital.
- 2.11 From a social impact standpoint, the PSPs selected for protection are designed to: (i) protect human capital investment in indigent families and those living in extreme poverty; (ii) alleviate the food emergency in the country, and (iii) tackle public health challenges triggered by the crisis, limiting contagion of diseases that cost more to treat than to prevent and afflict mainly parts of the country with the worst poverty and indigence levels. Consequently, the PSP offerings can be viewed as a "basket" of services or benefits that will reach 33% of the indigent population and 15% of the country's poor. Though the contribution might seem modest from a cash income standpoint,⁴ the value added lies in indirect benefits that will assure a decent diet, health services required for healthy development, and school attendance that will make sure people are employable down the road.
- 2.12 The PSPs help protect human capital investment by fostering a demand for health and public education services among the very poor and the indigent. Protected education programs are those that provide supplies, books, grants or allowances and school lunch programs to reduce poor families' out-of-pocket costs of keeping their children in school. Maintaining schools in good operating condition is a way of making sure that no classroom time will be lost even in emergency conditions. In the health sector this objective is achieved by supplying public hospitals with

⁴ A typical two-adult, two-child family that receives, simultaneously, the cash benefits available through the PSP "basket" could receive up to Arg\$110 monthly, plus indirect social-good benefits like food, health, and public education.

critical inputs, without which health facilities would find themselves in serious straits. The Income for Human Development (IHD) program features an extra incentive for beneficiaries to keep their children in school and take them for health check-ups.

- 2.13 The PSPs directly help combat hunger and malnutrition. Through the IHD program, the Participatory Social Investment Fund (FOPAR), the Mother and Child Program (PROMIN) and school lunch programs, nutritional support will be given to 1.7 million children between 6 and 12 who attend school in poor areas, to 1.8 million pregnant women or mothers of young children, and to over 1 million poor households. Considering that there are 2.33 million indigent households with 5.6 million indigent children, as these programs refine their targeting they have the potential to improve the nutritional status of close to half the country's indigent population.
- 2.14 One PSP feature aimed at attenuating public health risks is the delivery of basic-drug kits to primary health care centers across the country to promote preventive health care, with a potential demand of 14 million beneficiaries. Also protected are vaccination programs and vector control programs for Chagas disease, yellow fever, malaria and other diseases that afflict primarily the poor parts of the country, to benefit over 3.5 million people. Actions and programs that seek to prevent public health risks benefit primarily the poorest population groups, who have no employment-associated or private health insurance and go to public facilities for care.
- 2.15 To help make sure the poorest children enroll and stay in school, apart from the above-mentioned school lunch program, the school attendance grant will be protected. That program will distribute 350,000 grants annually for poor children aged 13 to 18. Since close to 1.48 million indigent children in that age group attend school, the grant program could potentially reach 24% of these children with a Arg\$400-a-year allowance. In addition, over 3 million children will benefit indirectly from the school infrastructure program and the stay-in-school components of the grant and education equity programs. These programs will help assure that 2.6 million poor children have a school they can attend regularly and have incentives to stay in school, even during an episode of crisis.
- 2.16 As a condition for release of the first tranche for PSP protection the Bank must have received evidence: (i) of PSP financial execution at 28 December 2002 and (ii) that in the 2003 Budget Law there is funding allocated to cover the PSP physical and financial targets listed in Annex II. In addition, the Administrative Decision that provides particulars of the PSPs and their amounts and bars the transfer of PSP budget allotments to other budget lines must be presented to the Bank.
- 2.17 For the second tranche the Bank is to have received evidence of: (i) execution of the quarterly physical and financial targets referred to in Annex III for all

completed quarters and for at least the first quarter of 2003, at the date of the disbursement request.

3. Social policy efficiency and continuity

- 2.18 Targeted social program implementation is very decentralized in Argentina: the provinces operate around 60% of such programs using national government transfer monies. The role of the respective line ministries is to devise criteria for distribution among provinces, municipalities and executing agencies, controls of beneficiary rosters and of procurement of certain inputs. The function of the subnational and local levels is to run the programs and distribute benefits to end-beneficiaries. Because of this decentralized arrangement it is crucial that there be regulatory mechanisms and checks for the national government to be sure that programs adhere to the prescribed targeting criteria, to be able to evaluate the programs' efficiency and impact, and to ascertain user satisfaction levels.
- 2.19 To achieve those objectives, the CNCPS's terms of reference include the following: (i) coordinate the social policies and programs of sectors that operate targeted social programs; (ii) strengthen the Social Program Information, Evaluation and Monitoring System/Beneficiary Household Identification and Registry System (SIEMPRO/SISFAM) to ensure that their beneficiary identification and selection tools are compatible with each other and with the National Taxpayer and Social Identification System (SINTyS); (iii) provide a single, consolidated registry of social program beneficiaries in order to avoid duplication and make for a more comprehensive and mutually complementary package of programs to heighten their impact on the benefiting families; and (iv) ensure that there are civic participation and community initiative and oversight mechanisms and avenues in place.
- 2.20 The World Bank will support the CNCPS in devising a strategic plan aimed at heightening the impact of social policy and putting social sector resources to more efficient use. Activities to prepare this plan are expected to begin in the coming months; the process will probably take about a year. Those activities will be protected under the operation proposed here.
- 2.21 For the *first tranche* the following conditions are expected to have been fulfilled in the social policy efficiency and continuity area: (i) the CNCPS is to have provided the Bank with a work plan and timetable for development of a strategic plan intended to consolidate programs in terms of their objectives and target populations and to improve social program and policy design, management, implementation, funding and resource use; (ii) an internal audit service is to be operating within SIEMPRO to monitor the quality of surveys conducted using the Current and Potential Social Program Beneficiary Identification fiche (FIBAPS); (iii) SISFAM databases are to have been integrated with SINTyS databases; (iv) the targeting mechanism using SISFAM is to be in use in the Income for Human Development (IHD) program; (v) each of the PSPs (in addition to the IHD) must still be using a

beneficiary selection and/or targeting mechanism appropriate to its objectives; (vi) the Bank must have received a proposal for a methodology for evaluating targeted social programs that covers processes, targeting approaches and outcomes, and a plan for the corresponding baseline survey must have been presented; and (vii) the CNCPS is to have provided the Bank with a report consolidating the information available on PSP participatory and societal oversight mechanisms, for instance systems for gathering and dealing with complaints, web page creation and updates, development of a beneficiary information strategy, publication of beneficiary selection mechanisms, publication of beneficiary lists when pertinent, and creation and operation of entry points and avenues for public input.

- 2.22 For the *second tranche* the following conditions are to have been fulfilled: (i) the CNCPS must have provided the Bank with the strategic plan referred to in the first-tranche conditions; (ii) the SISFAM database must contain at least 1,150,000 FIBAPS fiches of duly surveyed households; (iii) a report on SINTyS activities relating to integration of the SISFAM database must have been presented; (iv) the CNCPS must have reported on the status and coverage of the Consolidated Beneficiary Register, including an analysis of reduced duplications; (v) it must have been demonstrated that each PSP's established beneficiary selection and/or targeting mechanisms are being applied; (vi) the baseline constructed must have been presented, and (vii) a proposed action plan for strengthening the PSP public participation and oversight mechanisms mentioned under the first tranche must have been presented.
- 2.23 The outputs and outcomes expected by the end of the program are more and better social-expenditure targeting tools and procedures, common methodologies for program monitoring and evaluation, databases compatible with the SINTyS database, and mechanisms allowing for societal oversight and community initiatives for national programs with decentralized operation. The goal is to make these programs more efficient, heighten their impact, and enhance transparency in decision-making on resource allocation for social programs.

4. Advancing social-sector strategies

- 2.24 Each of the sectors that together comprise Argentina's basic social safety net—health, education, and social development—has taken steps and launched short-term programs to respond immediately to problems triggered by the crisis. These sector programs are still shielded among the PSPs. For the medium term there are efforts under way within each sector to keep the emergency situation from jeopardizing the modernization gains being achieved by current sector policies. The Bank will assist these sectors in their pursuit of their medium-range strategies, to ensure that measures which mark sector strategy gains (described below) are not reversed.

- 2.25 The government's strategy for the **health** sector envisages moves to quickly tackle the health emergency in tandem with institution-building measures to strengthen the public health apparatus, the aim being to maintain the quality and equity of health services after the emergency has passed. Support will be provided to lay the foundations for an increase in coverage and improvement in quality of public health services to assure a more equitable supply and make sure that the country's poorest are protected during episodes of crisis.
- 2.26 As *first-tranche* requirements, the Ministry of Health and Social Action (MSAS) is to have provided the Bank with a document mapping out a preliminary conceptual framework for public health insurance and possible institutional incentives and mechanisms for implementing public health insurance plans in the provinces, and the MSAS is to have held a technical seminar, inviting health sector representatives from all the provinces, to discuss that conceptual framework paper. For the *second tranche* the MSAS would have to have provided the Bank with a Provincial Health Insurance proposal worked out by consensus with the Superintendency of Health Services.
- 2.27 The aim in the **education** sector is to ensure the sustainability of targeted sector policies by improving the permanent education information system. This will mean adopting indicators to classify schools based on the socioeconomic stratum of their catchment area, to be able to target the distribution of school supplies equitably and make it easier to equalize outcomes in student populations where there are differences in families' cultural and social capital.
- 2.28 Conditions for the *first tranche* are that a technical team of formally appointed Ministry of Education, Science and Technology (MECT) specialists with experience in education support and equalization programs and education information and quality assessment programs be working within that ministry's Secretariat of Education, to develop a School Classification System by socioeconomic stratum of the student population and an associated action plan. For the *second tranche* the MECT is to have submitted the aforementioned School Classification System action plan to the Bank.
- 2.29 In the **social development** sphere, support is planned for interventions to make measures and programs sustainable after the crisis, make spending more efficient, and make interventions more effective. The aim is to steadily articulate similar initiatives by programmatic area (food, housing and minimum income) by using compatible beneficiary identification and registry systems.
- 2.30 For the *first tranche* the Ministry of Social Development (MDS) is to have presented a report to the Bank consolidating available data on operating approaches and procedures, benefits, targeting criteria, coverage, transparency, beneficiary registers, and all MDS social program providers by action focus, programmatic area, age group and geographic area. For the *second tranche* the MDS would have

to have submitted a methodology proposal and action plan with a timetable for evaluating the workings of its programs (including provincial accountability and the fund transfer mechanism), their interfaces, and the MDS's institutional capacity, by action sphere, age group and geographic area.

III. IMPLEMENTATION AND EVALUATION

A. Nature of the program

- 3.1 The proposed program fits the special emergency lending guidelines approved by the Board of Executive Directors in June 2002. The central aim of such operations is to provide timely financial support to countries to help contend with the aftermath of financial crises and mitigate their impact on the poorest and most vulnerable, protecting funding for programs targeted to those segments of society and preserving gains achieved thus far in public social policies.

B. Executing agency

- 3.2 The program's executing agency will be the Ministry of Economic Affairs, acting through its Economic Policy Secretariat. Among that office's institutional responsibilities are national economic policy development and the general coordination of structural and sector adjustment project preparation and execution.
- 3.3 Over the course of the program the Economic Policy Secretariat will have technical support from the National Council for Social Policy Coordination (CNCPS), which reports to the Office of the President of Argentina, from the ministries in charge of executing the respective components (Health, Education, Science and Technology, and Social Development ministries), and from SIEMPRO/SISFAM, the CNCPS arm in charge of social database management and the monitoring and evaluation of national social programs.
- 3.4 The program's institutional architecture echoes the organizational structure of the Argentine Executive Branch, in which the Economic Policy Secretariat is charged with economic policy development (including coordination of work with other Executive Branch agencies and formulation of the national budget, to be concordant with the fiscal and monetary program) and the CNCPS coordinates national social policy, working closely with the respective line ministries.

C. Execution and administration

- 3.5 An Executive Coordination Group (ECG) will be set up for overall coordination, administration, monitoring and evaluation of the program. It will supervise the program as a whole to see that its objectives and targets are achieved as planned and on schedule.
- 3.6 Heading the ECG will be a General Coordinator to be appointed by the Economic Policy Secretariat, with a Social Policy Coordinator designated by the CNCPS and technical officers to be appointed by the respective line ministries and by SIEMPRO/SISFAM. The General Coordinator will be the Argentine government's

interlocutor with the Bank, with responsibility for compiling and delivering technical, legal, administrative and financial-accounting information required for the program's complete, timely implementation and for each tranche release.

D. Implementation period and disbursement amounts and timetable

- 3.7 The proposed US\$1.5 billion loan will be disbursed in two tranches over a period of up to 18 months. The first tranche will be for up to US\$765 million, from which will be deducted the US\$15 million special fee; the second will be for up to US\$735 million. According to projected fulfillment dates of the agreed conditionality matrix, the first tranche would be released in the first quarter of 2003 and the second during the third quarter of 2003.

E. Conditions for release of funds

- 3.8 The tranches would be released as agreements set out in the conditionality matrix are fulfilled. One condition precedent for the first tranche specifically, in addition to the matrix conditions (Annex I) and conditions precedent in the General Conditions of Bank loan contracts, will be that the ECG has been set up and is fully operational, with the program's General Coordinator and Social Policy Coordinator appointed as well as the sector coordinators (health, education, social development, and SIEMPRO/SISFAM).
- 3.9 For purposes of the physical and financial targets set for each sector's PSPs (education, health, social development), budget lines have been opened by program and by activity to expedite target tracking. These targets are to have been "substantially" achieved to the Bank's satisfaction. The following guidelines will be taken into account to establish clear, reasonable, objective, transparent ex ante criteria on how the Bank would assess whether or not the targets have been "substantially" achieved.
- 3.10 Given the inherent flexibility in the aforementioned criterion, exogenous factors, both macroeconomic and relating to implementation of the protected activities, would be taken into account. With that in mind, for the second tranche a financial target "floor" by program would be established, i.e., a minimum acceptable execution status of 85% and a 75% "floor" for physical targets by activity. This will leave a margin in case one activity's implementation status falls short of the agreed target—provided at least 75% of the physical target is achieved—whereupon it can be offset by more advanced levels of execution of other activities within the same program, the aim being to maintain a minimum acceptable level of financial execution for each program.⁵

⁵ The idea is to achieve physical targets by activity and financial targets by program because activities and programs are mutually complementary (in most cases) and not substitutable for purposes of the benefits basket offered to poor families and other vulnerable groups.

- 3.11 Furthermore, in order to offset any deviations triggered by unit price changes that exceed the assumptions in calculations of PSP physical and financial targets (and consistent with assumptions used in the 2003 draft Budget Law presented to the Argentine Congress), a correction factor will be applied to adjust physical targets referencing effective price changes in the corresponding period. The correction factor will be the ratio of the implicit consumption, investment or import deflator used in the 2003 budget bill to changes in the wholesale price index (WPI), construction cost index (CCI), or nominal exchange rate (NER), respectively, in each quarter vis-à-vis the same quarter the previous year, multiplied by the quarterly physical target set in the agreed matrix. The following is the correction factor formula:

Table III-1	
<u>(Percentage change in implicit deflator/100)+1</u>	
(IP_{T103}/IP_{T102})	
where:	
-	The change in implicit consumer prices is 45.9%, in investment 39.6%, and in imports 19.2% (Source: 2003 Budget Law forecasts).
-	IP is the WPI, CCI or NER – for the completed quarter or pertinent part-quarter when the disbursement request is submitted.
-	T= completed quarter; i= 1, 2, 3, 4

- 3.12 The correction factor formula selected will depend on the makeup of inputs for each activity. Hence, the *consumption* correction factor will be used for the Participatory Social Investment Fund (MDS, Program 25, Activity 10), the Educational Support and Equalization Program that provides books and supplies to poor schools (MECT, Program 33 except for school-attendance grants), the Education Information and Quality Assessment Program (MECT, Program 32), the PRODYMES II secondary education program (MECT, Program 41), and the Mother and Child Services Program (MSAS, Program 17), involving fortified-milk funding and delivery and health services for mothers and children. The *investment* correction factor will be used for the Barrio Improvement Program (MDS, Program 25, Activity 10) and the School Infrastructure Program (MECT, Program 37). The *import* correction factor will be applied for the Mother and Child Services Program (MSAS, Program 17 component relating to delivery and funding of drugs and reproductive health treatment), the VIGIA infectious-disease control program (MSAS, Program 20), LUSIDA plan to combat AIDS and sexually transmitted diseases (MSAS, Program 22) and the REMEDIAR program that provides essential drugs for the poor (MSAS, Program 30).
- 3.13 The above-described mechanism will be used only in scenarios in which WPI, CCI or exchange rate changes exceed the respective deflators considered in the 2003 budget calculations. Elsewhere what will be taken into consideration is the achievement of physical and financial targets, with due regard to the margin of

flexibility mentioned in the previous section. If the Argentine government decides to raise benefit amounts in PSPs that provide cash transfers, the Income for Human Development program and the attendance-grant program, the financial target will have to be raised proportionately so as not to reduce the physical target, unless it is demonstrated that a change in socioeconomic conditions has lowered the number of eligible beneficiaries.

- 3.14 The aim of the envisaged flexibility for assessments of PSP target achievement is to prepare for the consideration of imponderables that come into play and directly affect PSP implementability, such as: (i) extreme macroeconomic uncertainty and (ii) the existence on the menu of program offerings of brand-new programs (e.g. Income for Human Development and essential-drugs programs) and others that will be nearly quadrupling their coverage (e.g. school attendance grants). Moreover, with this methodology it will be possible to attain average execution levels for each program that are superior to the acceptable “floors” for individual activities within that program.
- 3.15 The status of the physical targets will be checked quarterly by reference to the matrix indicators by activity and program. Indicator performance will be reviewed quarterly over the course of the program, using the programs’ own monitoring and evaluation systems.
- 3.16 The project team will assess the data the Executive Coordination Group will be supplying in fulfillment of the matrix conditions and will produce reports thereon for the Bank’s Management and Board to seek authorization for disbursement, in accordance with the current policy. The Bank is to receive these reports at least 30 calendar days before each desired disbursement date.

F. Monitoring and evaluation of the program

- 3.17 Given the proposed program’s multisectoral nature and nationwide reach, a quarterly monitoring plan has been agreed on with the Argentine government to be able to supervise timely fulfillment of commitments and achievement of advances set out in the conditionality matrix, which are outlined in a quarterly monitoring matrix. The quarterly monitoring reports thus will describe what has been achieved and what policy actions are under way, using as a basis a set of milestones that will serve as early warnings of any potential delays so that corrective action can be taken.
- 3.18 The Argentine government is to provide the Bank with quarterly monitoring reports, based on the quarterly monitoring matrix, within 30 calendar days after the end of the preceding quarter.
- 3.19 The program’s performance will be assessed against a set of selected indicators (see details in the table below). The guiding criterion was to choose indicators that have

proved satisfactory in monitoring the five reoriented programs, bearing in mind also the dearth of information on some PSPs.

Table III-2	
Indicator type	Examples of indicators
Process	<ul style="list-style-type: none"> • Progress toward physical targets: Number of benefits delivered/Number of benefits programmed • Beneficiary coverage: Number of beneficiaries served/Number of beneficiaries programmed • Provider coverage: Number of active providers/Number of programmed providers
Targeting	<ul style="list-style-type: none"> • Effective targeting: Number of beneficiaries belonging to families with a per capita household income below the poverty line • Program targeting: Number of beneficiaries/Target population living in poverty in the pertinent segment
Outcomes	<ul style="list-style-type: none"> • Coverage compared to the program's ultimate target • Performance of commitments made in exchange for benefits • Financial advance: Accrued expenditure/Budgeted expenditure • Cost-efficiency: Cost (direct and total) per beneficiary served/Cost (direct and total) per programmed benefit • Cost (direct and total) per benefit delivered/Cost (direct and total) per programmed benefit

- 3.20 The program's performance evaluation methodology, which is part of the first-tranche conditions, is to address the issue of spending efficiency generally and, in particular, the efficiency of expenditure in each PSP's processes, targeting and outcomes. The baseline survey in regard to these indicators (part of the second-tranche conditionality) will provide a yardstick against which to measure gains achieved over the life of the program and will enable its evaluation.
- 3.21 Taking into account the special nature and specific circumstances inherent in this emergency operation, a series of impact indicators have been agreed upon which will make it possible to measure the program's effectiveness in terms of mitigating the effects of the crisis on the poor and vulnerable and protecting the financing of social programs benefiting that segment of the population. In the last quarter of 2005, the Government of Argentina will verify the agreed indicators' performance as well as fulfillment of the targets presented in Table III-3. The targets have been set taking into account a series of assumptions that extend over a period of time beyond the operation's execution period. Specifically, achieving the targets assumes that aspects such as demographic trends and government actions that could affect the targets in the medium and long terms have remained relatively constant. It has been agreed that a 5% margin of deviation in the targets will be technically acceptable given the variations inherent in some of the indicators used.

Table III-3 Impact Evaluation		
Indicator	Baseline (BL)	December 2005 target
Health:		
Infant mortality rate	16.3%	At least equal to BL
Mortality rate for children under 5	19.3%	At least equal to BL
Education:		
Attendance rate. Poor children between the ages of 6 and 12	99.3%**	At least equal to BL
Poor youngsters between the ages of 13 and 18	83.4%**	At least equal to BL
Poverty:		
Incidence of poverty, population under 18	69.8%*	At least equal to 52%***
Incidence of indigence, population under 18	37.1%*	At least equal to 21%***
* Source: Household Survey, May 2002 ** Source: Ministry of Health statistics, 2001 *** Source: Household Survey, average 2001		

- 3.22 In accordance with current policies and procedures, the Argentine authorities were consulted to ascertain whether they were prepared to conduct an ex post evaluation of the program. The government indicated that budget constraints associated with the crisis make it impossible to consider such an evaluation at this time. However, the government undertook to gather any necessary data and make it available to the Bank with a view to an ex post evaluation being done if deemed necessary. The data would come essentially from the 2001 Living Standards Survey (LSS) compared to the planned 2003 LSS with which the World Bank is assisting. Using the LSS the emergency's aggregate impact on the population can be determined, comparing LSS before-and-after data on poor households regarding access to food, receipt of milk, aid for school supplies, school dropout and retention figures, access to essential drugs, primary health care, housing quality and sanitation, and societal participation. Also to be evaluated are the impact of cash transfers to families and beneficiaries' honoring of commitments they made in exchange for certain benefits.

G. Policy letter

- 3.23 The Bank and the borrower are agreed on the policies outlined in the policy letter appended to this proposal. The letter summarizes the Argentine government's economic and social policy thrust and describes specific policy measures to protect budgets for priority health, education and social development programs, along with other policies intended to improve the efficiency, effectiveness, efficacy and equity of public social spending.

- 3.24 Inasmuch as the program's proposed disbursement structure would only provide effective protection for PSPs in the first two quarters of 2003, the country authorities also pledge in the policy letter to maintain, for all of 2003, the budget protection agreed on with the Bank and embodied in the 2003 Budget Law. This protection is to be afforded to the same percentage of low-income and other vulnerable beneficiary groups as is envisaged for the first two quarters of 2003, and is to substantially adhere to the policy lines set out in the policy letter.

H. External audits

- 3.25 The Bank reserves the right to require financial statements corresponding to each tranche within 90 days after the respective disbursement. The statements are to have been audited by independent auditors previously agreed to by the Bank. To that end the borrower will keep separate accounting records and supporting documentation to enable external audits to be performed and/or for any use-of-funds verification the Bank may request, and will operate a special bank account to manage the proceeds of the loan.

I. Inspection and supervision

- 3.26 In keeping with its policies the Bank will establish such inspection procedures as it considers necessary for the satisfactory execution of the program. To that end the borrower and executing agency will cooperate fully with the Bank, providing all necessary assistance and information when and as requested.

IV. VIABILITY AND RISKS

A. Benefits

- 4.1 Protecting Priority Social Program (PSP) budgets will prevent a worsening of the plight of the most vulnerable population that has been hardest hit by the crisis. Advancing the Argentine government's social strategy and strengthening its social programs will help assure one key facet of the fight against poverty: the operation of instruments to prioritize, coordinate, rationalize and target the government's chief poverty-targeted social protection interventions.
- 4.2 Improving the targeting and interface of programs that are designed to aid society's most vulnerable while bolstering avenues for public participation and community initiative will make for more pertinent interventions beyond the timeframe of the operation proposed here, and will heighten those programs' impact on social integration and the standard of living of the benefiting households. By concentrating the institutional response and emergency programs on the neediest families, those actions also will keep more children in school and prevent increases in child labor, thereby halting the intergenerational transmission of poverty.

B. Risks

- 4.3 Process continuity: The present administration's term ends in May 2003, whereupon the new authorities might take a different position as to priority of protected programs and the undertakings in the conditionality matrix. The following measures have been planned to address that eventuality: (i) budget protection, by including PSPs in the 2003 Budget Law; (ii) strengthening of societal oversight and initiative by fostering active civil society involvement in oversight and support for the emergency programs and social management training for civil society organizations; and (iii) an emphasis on the demand side, to make sure that programs are geared to needs. In addition, for purposes of preparing the US\$1 billion follow-on operation (see paragraph 1.52), the new authorities would have to: (a) provide the Bank with the final evaluation of the present operation's activities, as described in paragraphs 3.17 to 3.22, and (b) demonstrate to the Bank their commitment both to protecting the PSP physical and financial targets and to the policy actions set out in the conditionality matrix.
- 4.4 Sustainability of programs: If the emergency were to take up all the actions and the medium-range plan were put off, social policy gains achieved thus far could be reversed. To prevent any such sacrificing of the medium- and long-range vision, which would jeopardize social policy sustainability and social capital accumulation, the conditionality matrix will provide for monitoring of strategic actions such as targeting instruments, the Consolidated Beneficiary Register, information systems and databases that offer assurances of the programs' efficiency and continuity, and

opening and operation of entry points and avenues for civil society consultation, oversight and initiatives.

- 4.5 Because these are programs to alleviate poverty—a structural variable that is less volatile than the business cycle—and because not all the programs have clear-cut provisions as to when and how a beneficiary ceases to qualify, spending on these programs is unlikely to drop when the economy picks up. This risk will be attenuated by across-the-board improvements in poverty targeting mechanisms, with periodic checks of beneficiaries' income status to ascertain which households have risen sufficiently out of poverty to cease qualifying for benefits. These measures will protect the social spending envelope targeted to the poorest while preserving instruments whereby targeting mechanisms can eventually be built into all social programs.

C. Environmental and social viability

- 4.6 Because of the program's special nature, no physical or other investments are planned, so the operation will have no direct environmental impact. There are no environmental or social strategy measures to propose. Protected programs entailing fundable activities, such as the Barrio Improvement Program (PROMEBA) and the school repair program, are governed by Operating Regulations and the School Architecture Manual, respectively. Both of these were reviewed and approved by the Bank for earlier operations (loans 940/OC-AR and 1345/OC-AR, respectively).
- 4.7 On the social-impact side, the program is expected to help protect spending on programs targeted to the poor and the vulnerable and thereby help alleviate poverty in the emergency environment. Even though the operation will be protecting social spending and furthering the Argentine government's efforts to strengthen its social strategy and policy, according to the Bank's emergency lending guidelines (document GN-2031-10) it does not qualify as a poverty targeted or social equity enhancing program.
- 4.8 As for gender considerations, the program recognizes mothers' role in halting the intergenerational bequeathing of poverty and prioritizes programs that deliver benefits directly to mothers, for instance the Income for Human Development initiative. Mothers of children entitled to benefits under that program must pledge to keep their children in school or send them to childhood development centers where pertinent; this in turn will help boost female productivity. Women likewise stand to gain from the activities designed to enhance their employment and income prospects and those intended to increase community involvement. There will be indicators with which to track the programs' impact on women, and a gender perspective in beneficiary identification and registry instruments.

- 4.9 To determine whether the PSPs are helping to enhance equity and social inclusion in vulnerable groups, an ethnicity dimension will be built into the beneficiary registers and Consolidated Beneficiary Register.